

to promote equality of treatment for similarly situated creditors and similarly situated interest holders with respect to the distribution of a debtor's assets. The commencement of a Chapter 11 case creates an estate that is comprised of all of the legal and equitable interests of the debtor as of the Petition Date. The Bankruptcy Code provides that the debtor may continue to operate its business and remain in possession of its property as a "debtor-in-possession."

The consummation of a plan of reorganization is the principal objective of a Chapter 11 case. A plan of reorganization sets forth the means for satisfying claims against and interests in a debtor. Confirmation of a plan of reorganization by the Bankruptcy Court makes the plan binding upon the debtor, any issuer of securities under the plan, any person or entity acquiring property under the plan and any creditor or equity security holder in the Debtor, whether or not such creditor or equity security holder (i) is impaired under or has accepted the plan or (ii) receives or retains any property under the plan. Subject to certain limited exceptions and other than as provided in the plan itself or within the order of the Bankruptcy Court confirming the plan pursuant to Section 1129 of the Bankruptcy Code, a confirmation order of the Bankruptcy Court discharges the debtor from any debt that arose prior to the date on which the clerk of the Bankruptcy Court enters such confirmation order on the docket of the Bankruptcy Court, substitutes the obligations specified under the confirmed plan and may terminate certain rights and interests of certain creditors and equity security holders.

**B. Creditors and Equity Interest Holders Entitled to Vote on the Plan**

As more fully described below, the Plan designates separate classes of Claims against and Interests in XO (other than Administrative Claims and Priority Tax Claims). If the Bankruptcy Court has granted the solicitation procedures order, in light of the fact that Classes 7, 8, 9, 10 and 11 will be deemed to have rejected both Alternatives under the Plan, only the Holders of Class 1 Senior Secured Lender Claims in XO, Class 5 General Unsecured Claims in XO and Class 6 Senior Note Claims will be solicited. In addition to Holders of Administrative Claims and Priority Tax Claims (which are not classified under either Alternative under the Plan), Holders of Claims or Interests in Classes 2, 3 and 4 are Unimpaired by both Alternatives under the Plan and, therefore, are not entitled to vote to accept or reject either Alternative under the Plan and are deemed to have accepted both Alternatives under the Plan.

Bankruptcy Rule 3018(b) prescribes the conditions that must be satisfied in order to count the Ballots solicited with respect to a plan of reorganization prior to the commencement of a Chapter 11 case. Bankruptcy Rule 3018(b) requires that (i) the plan must have been disseminated to substantially all impaired creditors and equity security holders in the class(es) entitled to vote, (ii) the time prescribed for voting on the plan must not have been unreasonably short and (iii) the solicitation must have been conducted in accordance with Section 1126(b) of the Bankruptcy Code, which requires that the solicitation be conducted in compliance with all applicable non-bankruptcy laws, rules and regulations or, if there are no such applicable laws, rules or regulations, that the disclosure with respect to the plan contains "adequate information" as defined in Section 1125(a) of the Bankruptcy Code. Section 1125(a) defines "adequate information" as information of a kind and in sufficient detail as far as is reasonably practicable in light of the nature and history of a company and the condition of such company's books and records, that would enable a hypothetical reasonable investor typical of Holders of Claims or Interests of the relevant class to make an informed judgment about the plan of reorganization.

The Debtor believes that all of the requirements of Bankruptcy Rule 3018(b) will be satisfied. This Disclosure Statement and the Plan, together with all of the accompanying materials, are being transmitted to Holders of Class 1 Senior Secured Lender Claims in XO, Holders of Class 5 General Unsecured Claims and Holders of Class 6 Senior Note Claims. XO believes that this Disclosure Statement contains adequate information (within the meaning of Section 1125(a)(1) of the Bankruptcy Code) for all Holders of such Claims.

**C. Certain Matters Regarding Classification and Treatment of Claims and Interests**

Section 1123 of the Bankruptcy Code provides that a plan of reorganization must classify the claims and interests of a debtor's creditors and equity interest holders. In accordance with Section 1123, the Plan divides Claims and Interests into Classes and sets forth the treatment for each Class (other than Administrative Claims and Priority Tax Claims which, pursuant to Section 1123(a)(1), need not be and have not been classified). The Debtor is required, under Section 1122 of the Bankruptcy Code, to classify Claims against and Interests in the Debtor into Classes, each of which contain Claims and Interests that are substantially similar to the other Claims and Interests in such Class. The Debtor believes that both Alternatives under the Plan have classified all Claims and Interests in compliance with the provisions of Section 1122, but it is possible that a Holder of a Claim or Interest may challenge the Debtor's classification of Claims and Interests and that the Bankruptcy Court may find that a different classification is required for the an Alternative under the Plan to be confirmed. In that event, the Debtor intends, to the extent permitted by the Bankruptcy Code, the Plan and the Bankruptcy Court, to make such reasonable modifications of the classifications under the applicable Alternative under the Plan to permit confirmation and to use the acceptances of such Plan received prior to solicitation for purposes of obtaining the approval of the reconstituted Class or Classes of which each accepting Holder ultimately is deemed to be a member. Any such reclassification could adversely affect the Class in which such Holder initially was a member, or any other Class under such Plan, by changing the composition of such Class and the vote required of that Class for approval of such Plan. Furthermore, a reclassification of a Claim or Interest after approval of such Plan could necessitate a resolicitation of acceptances of such Plan.

The Debtor believes that the consideration, if any, provided under both Alternatives under the Plan to Holders of Claims and Interests (summarized below) reflects an appropriate resolution of their Claims and Interests, taking into account the differing nature and priority (including applicable contractual subordination) of such Claims and Interests. The Bankruptcy Court must find, however, that a number of statutory tests are met before it may confirm the Plan. Many of these tests are designed to protect the interests of Holders of Claims or Interests who are not entitled to vote on either Alternative under the Plan, or do not vote to accept either Alternative under the Plan, but who will be bound by the provisions of an Alternative under the Plan if it is confirmed by the Bankruptcy Court. The "cramdown" provisions of Section 1129(b) of the Bankruptcy Code, for example, permit confirmation of a Chapter 11 plan in certain circumstances even if such plan has not been accepted by all impaired classes of claims and interests. Although the Debtor believes that either of the Alternatives under the Plan could be confirmed under Section 1129(b), there can be no assurance that the requirements of such section will be satisfied. The classification of Claims and Interests and the nature of distributions to members of each Class are summarized below.

1. Fee Claims

Fee Claims are Administrative Claims under Sections 330(a), 331, 503, or 1103 of the Bankruptcy Code for compensation of Professionals or other entities for professional services rendered or expenses incurred in the Chapter 11 Case on or prior to the Effective Date. All payments to Professionals for Fee Claims will be made in accordance with the procedures established by the Bankruptcy Code, the Bankruptcy Rules, the United States Trustee Guidelines and the Bankruptcy Court relating to the payment of interim and final compensation for services rendered and reimbursement of expenses. The Bankruptcy Court will review and determine all applications for compensation for services rendered and reimbursement of expenses.

In addition, Section 503(b) of the Bankruptcy Code provides for payment of compensation to (a) creditors, indenture trustees and other entities making a "substantial contribution" to a Chapter 11 case and (b) attorneys for and other professional advisors to such entities. The amounts, if any, which may be sought by entities for such compensation are not known by the Debtor at this time. Requests for compensation must be approved by the Bankruptcy Court after a hearing on notice at which the Debtor and other parties in interest may participate and, if appropriate, object to the allowance of any compensation and reimbursement of expenses.

2. Administrative Claims

Administrative Claims are Claims for costs and expenses of administration of the Chapter 11 Case Allowed under Section 503(b) or 1114(e)(2) of the Bankruptcy Code and entitled to priority pursuant to Section 507(a)(1) of the Bankruptcy Code other than Fee Claims. Such Claims include (a) any actual and necessary costs and expenses incurred after the Petition Date of preserving the Debtor's Estate and operating the businesses of the Debtor (such as wages, salaries, commissions for services and payments for inventories, leased equipment and premises), and Claims of governmental units for taxes (including tax audit Claims related to tax years commencing after the Petition Date, but excluding Claims relating to tax periods, or portions thereof, ending on or before the Petition Date) and (b) all fees and charges assessed against the Debtor's Estate under Section 1930, Chapter 123 of Title 28, United States Code.

Subject to the provisions of sections 330(a), 331 and 503(b) of the Bankruptcy Code, each Administrative Claim shall be paid by the Debtor, at its election, (a) in full, in Cash, in such amounts as are incurred in the ordinary course of business by the Debtor, or in such amounts as such Administrative Claim becomes an Allowed Claim by the Bankruptcy Court, (b) upon such other terms as may exist in the ordinary course of the Debtor's business, or (c) upon such other terms as may be agreed upon between the Holder of such Administrative Claim and the Debtor.

The Confirmation Order will establish an Administrative Claims Bar Date for filing Administrative Claims. Holders of Administrative Claims not paid prior to the Effective Date shall submit proofs of Claim on or before such Administrative Claims Bar Date or are forever barred from doing so. The notice of Confirmation to be delivered pursuant to Bankruptcy Rules 3020(c) and 2002(f) will set forth such date and constitute notice of this Administrative Claims Bar Date. The Debtor and Reorganized XO shall have thirty (30) days

(or such longer period as may be allowed by order of the Bankruptcy Court) following the Administrative Claims Bar Date to review and object to such Administrative Claims before a hearing for determination of allowance of such Administrative Claims.

### 3. Priority Tax Claims

The legal and equitable rights of the Holders of Priority Tax Claims are Unimpaired by the Plan. On, or as soon as reasonably practicable after the later of (i) the Distribution Date if such Priority Tax Claim is an Allowed Priority Tax Claim as of the Effective Date or (ii) the date on which such Priority Tax Claim becomes an Allowed Priority Tax Claim, each Holder of an Allowed Priority Tax Claim shall receive in full satisfaction, settlement and release of, and in exchange for such Allowed Priority Tax Claim, at the election of the Debtor, (A) deferred payments in Cash, over a period not exceeding six years after the date of assessment of such Allowed Claim, equal to the amount of such Allowed Priority Tax Claim; (B) such other treatment as to which the Debtor or Reorganized XO and the Holder of such Allowed Priority Tax Claim shall have agreed upon in writing; or (C) such other treatment so that it will not be Impaired pursuant to section 1124 of the Bankruptcy Code; further provided, any Allowed Priority Tax Claim accruing or arising prior to the Confirmation Date but not due and owing on the Effective Date will be paid in accordance with the Plan when such Claim becomes due and owing.

### 4. Classes of Claims

#### a. Class 1—Senior Secured Lender Claims in XO

Class 1 consists of Senior Secured Lender Claims. The Senior Secured Lender Claims are Allowed as secured claims under 11 U.S.C. §§ 506(a) and 507(b) pursuant to the Plan in the aggregate amount of \$1 billion plus accrued and unpaid interest and Administrative Agent Fee Claims through the Effective Date. The legal, equitable and contractual rights of the Holders of Allowed Senior Secured Lender Claims are impaired by the Plan. Holders of Senior Secured Lender Claims shall be entitled to vote on the Plan. Subject to Section 3.7 of the Plan, Holders of Senior Secured Lender Claims shall receive the following treatment:

- i. *Treatment under the FL/Telmex Plan.* Under the FL/Telmex Plan, on the Effective Date, all Allowed Senior Secured Lender Claims (including all applicable security interests) shall remain outstanding subject to the terms of the Amended and Restated Senior Credit Facility. All interest that accrued prior to and remains unpaid as of the Effective Date shall be paid in Cash on the Effective Date or as soon as reasonably practicable thereafter. XO estimates the recovery for these Claims is 98.1% assuming \$20,000,000 of cash interest due to the Senior Secured Lender Claims is contributed to the Settlement Fund pursuant to the Shareholder Stipulation.

- ii. *Treatment Under the Stand-Alone Plan.* Under the Stand-Alone Plan on the Effective Date, each Holder of an Allowed Senior Secured Lender Claim shall receive its pro rata share of:
- (1) the New Junior Secured Loans;
  - (2) (a) if two-thirds or more of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve it, and the Official Committee of Unsecured Creditors has recommended a vote in favor of confirmation of the Stand-Alone Plan and not withdrawn such recommendation, 90,250,000 shares of the New Reorganization Common Stock representing 95% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date, or (b) if less than two-thirds of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve its confirmation, 95,000,000 shares of the New Reorganization Common Stock representing 100% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date (in each case subject to dilution resulting from the exercise of the New Warrants, if any, allocated to the Senior Note Claims and General Unsecured Claims, issuance of shares pursuant to the Rights Offering and the exercise of New Options under the Management Incentive Program);
  - (3) the Nontransferable Rights, subject to redistribution pursuant to Sections 3.3(b), 3.3(c), 3.3(d), 3.4(a) and 3.4(b) of the Plan; and
  - (4) the Transferable Rights.

XO estimates the recovery for these Claims, if the events contemplated by paragraph (ii)(2)(a) above occur, is 88.4% or, if the events contemplated by paragraph (ii)(2)(b) above occur, is 93.4%, in each case depending on the level of participation in the Rights Offering.

b. Class 2—Other Secured Claims in XO

An Other Secured Claim in XO is a Claim that is secured by a lien on property in which XO's Estate has an interest or that is subject to setoff under Section 553 of the Bankruptcy Code, to the extent of the value of the Claim Holder's interest in the Estate's interest in such property or to the extent of the amount subject to setoff, as applicable, as determined pursuant to Section 506(a) of the Bankruptcy Code or, in the case of setoff, pursuant to Section 553 of the Bankruptcy Code. The legal, equitable and contractual rights (including all applicable security interests) of the Holders of Allowed Other Secured Claims in XO are Unimpaired by the Plan

and all such Claims shall be Reinstated on the Effective Date. Each Holder of an Other Secured Claim with unique collateral or rights shall constitute its own subclass for classification purposes. Holders of Other Secured Claims in XO are not entitled to vote on the Plan. XO estimates the recovery for these Claims is 100%.

c. Class 3—Non-Tax Priority Claims in XO

A Non-Tax Priority Claim in XO means a Claim, other than an Administrative Claim or Priority Tax Claim in XO, that is entitled to priority in payment pursuant to Section 507(a) of the Bankruptcy Code. The legal and equitable rights of the Holders of Non-Tax Priority Claims in XO are Unimpaired by the Plan and all such Claims shall be Reinstated on the Effective Date. Holders of Non-Tax Priority Claims in XO are not entitled to vote on the Plan. XO estimates the recovery for these Claims is 100%.

d. Class 4—Convenience Claims in XO

A Convenience Claim in XO means a Claim that otherwise would be an Allowed General Unsecured Claim against XO as of the Voting Record Date in an amount (i) equal to or less than \$5,000, or (ii) greater than \$5,000 but which is reduced to equal or less than \$5,000 by an irrevocable written election of the holder of such Claim made on a validly executed and timely delivered Ballot. The legal and equitable rights of the Holders of Convenience Claims in XO are Unimpaired by the Plan and all such Claims shall be Reinstated on the Effective Date. Holders of Convenience Claims in XO are not entitled to vote on the Plan. XO estimates the recovery for these Claims is 100%.

e. Class 5—General Unsecured Claims in XO

Class 5 is impaired under the Plan and consists of General Unsecured Claims in XO. The Holders of General Unsecured Claims, as of the Voting Record Date, shall be entitled to vote on the Plan.

- i. *Treatment Under the FL/Telmex Plan.* Under the FL/Telmex Plan, subject to Sections 7.2 and 8.3 of the Plan, on or as soon as reasonably practicable after the Distribution Date, each Holder of an Allowed General Unsecured Claim shall receive, in full satisfaction, release, and discharge of its Allowed General Unsecured Claim, its pro rata share (based on a fraction, the numerator of which is the Face Amount of its Allowed General Unsecured Claim and the denominator of which is the aggregate Face Amount of all Allowed General Unsecured Claims) of the General Unsecured Claim Portion of:

- (1) 36,000,000 shares of New Common Stock representing 18% of the fully diluted common equity of Reorganized XO on the Effective Date (without giving effect to the New Common Stock issuable upon exercise of any options granted, or available for grant, to management or other

employees of the Company) to be issued on the Effective Date in accordance with the Plan; and

(2) Two Hundred Million Dollars (\$200,000,000).

XO estimates the recovery for these Claims is 8.6%.

ii. *Treatment Under the Stand-Alone Plan.* Under the Stand-Alone Plan, subject to Sections 7.2 and 8.3 of the Plan, and depending upon the level of Senior Note Claim approval obtained for the Stand-Alone Plan, as set forth below, on or as soon as reasonably practicable after the Distribution Date, each Holder of an Allowed General Unsecured Claim shall receive in full satisfaction, release, and discharge of its Allowed General Unsecured Claim, all as a gift from the entitled distribution of Holders of Senior Secured Lender Claims:

(1) if two-thirds or more of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve it, and the Official Committee of Unsecured Creditors has recommended a vote in favor of confirmation of the Stand-Alone Plan and not withdrawn such recommendation, its pro rata share (based on a fraction, the numerator of which is the Face Amount of its Allowed General Unsecured Claim, and the denominator of which is the aggregate Face Amount of all Allowed General Unsecured Claims) of the General Unsecured Claim Portion of:

(a) 4,750,000 shares of the New Reorganization Common Stock representing 5% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date (subject to dilution resulting from the exercise of the New Warrants, if any, allocated to the Senior Note Claims and General Unsecured Claims, issuance of shares pursuant to the Rights Offering and the exercise of New Options under the Management Incentive Program);

(b) New Series A Warrants to purchase 9,500,000 shares of New Reorganization Common Stock (representing 10% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan);

- (c) New Series B Warrants to purchase 7,125,000 shares of New Reorganization Common Stock (representing 7.5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan);
  - (d) New Series C Warrants to purchase 7,125,000 shares of New Reorganization Common Stock (representing 7.5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan); and
  - (e) 10% of the FL/Telmex Recovery.
- (2) if less than two-thirds of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve its confirmation, but the Official Committee of Unsecured Creditors has recommended a vote in favor of the Stand-Alone Plan, has not withdrawn such recommendation and the Debtor believes, in its reasonable judgment, that all of the members of such Committee have voted their Claims in favor of confirmation of the Stand-Alone Plan, its pro rata share (based on a fraction, the numerator of which is the Face Amount of its Allowed General Unsecured Claim, and the denominator of which is the aggregate Face Amount of all Allowed General Unsecured Claims) of the General Unsecured Claim Portion of New Series B Warrants to purchase 4,750,000 shares of New Reorganization Common Stock (representing 5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan); and
- (3) regardless of any vote or recommendation with respect to the Plan, the Nontransferable Rights allocable to the Holders of General Unsecured Claims pursuant to Section 3.6 of the Plan.

Each Holder of an Allowed General Unsecured Claim not exceeding \$100,000 may elect on or before the Voting Deadline to have its Claim treated as a \$5,000 Convenience Claim in Class 4 (Convenience Class) under the Plan in lieu of treatment as a Class



5 Claim and in full satisfaction of any and all distributions to be made under the Plan.

XO estimates the recovery for Class 5, if the events contemplated by paragraph (ii)(1) above occur, is approximately 1.4% or, if the events contemplated by paragraph (ii)(2) occur, is approximately 0.2%, in each case based upon the assumed amount of such Claims and assuming at least a majority of Class 5 accepts the Stand-Alone Plan, but before any appreciation in any exercised Rights or in any shares issued pursuant to New Warrants.

f. Class 6— Senior Note Claims in XO

Class 6 is impaired under the Plan and consists of Senior Note Claims in XO. The Holders of Senior Note Claims, as of the Voting Record Date, shall be entitled to vote on the Plan. Pursuant to 11 U.S.C. § 510(b) all contractual subordination provisions in the Indentures shall be enforced for the purposes of all distributions under the Plan. Recoveries, if any, to Holders of Senior Note Claims under the Plan shall be subject to the Note Trustee Charging Lien.

- i. *Treatment Under the FL/Telmex Plan.* Under the FL/Telmex Plan, subject to Section 7.2 of the Plan, on or as soon as reasonably practicable after the Distribution Date, each Holder of an Allowed Senior Note Claim shall receive, in full satisfaction, release, and discharge of its Allowed Senior Note Claim, its pro rata share (based on a fraction, the numerator of which is the Face Amount of its Allowed Senior Note Claim and the denominator of which is the aggregate Face Amount of all Allowed Senior Note Claims) of the Senior Note Claim Portion of:

- (1) 36,000,000 shares of New Common Stock representing 18% of the fully diluted common equity of Reorganized XO on the Effective Date (without giving effect to the New Common Stock issuable upon exercise of any options granted, or available for grant, to management or other employees of the Company) to be issued on the Effective Date in accordance with the Plan; and
- (2) Two Hundred Million Dollars (\$200,000,000).

XO estimates the recovery for these Claims is approximately 9.8%.

- ii. *Treatment Under the Stand-Alone Plan.* Under the Stand-Alone Plan, subject to Sections 7.2 and 8.3 of the Plan, and depending upon the level of Senior Note Claim approval obtained for the Stand-Alone Plan, as set forth below, on or as soon as reasonably practicable after the Distribution Date, each Holder of an Allowed

Senior Note Claim shall receive in full satisfaction, release, and discharge of its Allowed Senior Note Claim, all as a gift from the entitled distribution of Holders of Senior Secured Lender Claims:

- (1) if two-thirds or more of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve it, and the Official Committee of Unsecured Creditors has recommended a vote in favor of confirmation of the Stand-Alone Plan and not withdrawn such recommendation, its pro rata share (based on a fraction, the numerator of which is the Face Amount of its Allowed Senior Note Claim, and the denominator of which is the aggregate Face Amount of all Allowed Senior Note Claims) of the Senior Note Claim Portion of:
  - (a) 4,750,000 shares of the New Reorganization Common Stock representing 5% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date (subject to dilution resulting from the exercise of the New Warrants, if any, allocated to the Senior Note Claims and General Unsecured Claims, issuance of shares pursuant to the Rights Offering and the exercise of New Options under the Management Incentive Program);
  - (b) New Series A Warrants to purchase 9,500,000 shares of New Reorganization Common Stock (representing 10% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan);
  - (c) New Series B Warrants to purchase 7,125,000 shares of New Reorganization Common Stock (representing 7.5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan);
  - (d) New Series C Warrants to purchase 7,125,000 shares of New Reorganization Common Stock (representing 7.5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan); and

(e) 10% of the FL/Telmex Recovery.

- (2) if less than two-thirds of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve its confirmation, but the Official Committee of Unsecured Creditors has recommended a vote in favor of the Stand-Alone Plan, has not withdrawn such recommendation and the Debtor believes, in its reasonable judgment, that all of the members of such Committee have voted their Claims in favor of confirmation of the Stand-Alone Plan, its pro rata share (based on a fraction, the numerator of which is the Face Amount of its Allowed Senior Note Claim, and the denominator of which is the aggregate Face Amount of all Allowed Senior Note Claims) of the Senior Note Claim Portion of New Series B Warrants to purchase 4,750,000 shares of New Reorganization Common Stock (representing 5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan); and
- (3) regardless of any vote or recommendation with respect to the Plan, the Nontransferable Rights allocable to the Holders of Senior Note Claims pursuant to Section 3.6 of the Plan.

XO estimates the recovery for Class 6, if the events contemplated by paragraph (ii)(1) above occur, is approximately 1.5% or, if the events contemplated by paragraph (ii)(2) occur, is approximately 0.2%, in each case based upon the assumed amount of such Claims and assuming at least a majority of Class 6 accepts the Stand-Alone Plan, but before any appreciation in any exercised Rights or in any shares issued pursuant to New Warrants.

g. Class 7— Subordinated Note Claims in XO

Class 7 is impaired under the Plan and consists of Subordinated Notes Claims. Pursuant to 11 U.S.C. § 510(b) all contractual subordination provisions in the Indentures shall be enforced for the purposes of all distributions under the Plan. Recoveries, if any, to Holders of Subordinated Note Claims under the Plan shall be subject to the Note Trustee Charging Lien.

- i. *Treatment Under the FL/Telmex Plan.* Under the FL/Telmex Plan, Holders of Subordinated Note Claims shall not receive or retain any distribution under the Plan and the Subordinated Note Claims will be cancelled and/or discharged. Holders of Claims in this Class are deemed to have rejected the FL/Telmex Plan. Therefore,

Class 7 is not entitled to vote to accept or reject the FL/Telmex Plan. XO estimates the recovery for these Claims is 0%.

- ii. *Treatment Under the Stand-Alone Plan.* Under the Stand-Alone Plan, Holders of Subordinated Note Claims shall not receive or retain any distribution under the Plan and the Subordinated Note Claims will be cancelled and/or discharged; provided, however, that each Holder of an Allowed Subordinated Note Claim shall be entitled to receive and retain as a redistribution gift from the Senior Secured Lenders its pro rata share (based on a fraction, the numerator of which is the Face Amount of the Allowed Subordinated Note Claim as established pursuant to Section 3.6 of the Plan, and the denominator of which is the aggregate Face Amount of all Subordinated Note Claims as established pursuant to Section 3.6 of the Plan), of the Nontransferable Rights allocable to the Holders of Subordinated Note Claims pursuant to Section 3.6 of the Plan. Holders of Claims in this Class are deemed to have rejected the Stand-Alone Plan. Therefore, Class 7 is not entitled to vote to accept or reject the Stand-Alone Plan. XO estimates the recovery for these Claims is 0% before any appreciation in any exercised Rights.

h. Class 8—Securities Claims in XO

Class 8 consists of Securities Claims. On the Effective Date of the Plan, such Securities Claims shall be discharged and the Holders of Securities Claims shall not receive or retain any distribution on account of such Securities Claims under the Plan. Holders of Claims in this Class are deemed to have rejected both Alternatives under the Plan. Therefore, Class 8 is not entitled to vote to accept or reject the FL/Telmex Plan or the Stand-Alone Plan. XO estimates the recovery for these Claims is 0%.

i. Class 9—Old Preferred Stock Interests in XO

Class 9 consists of Old Preferred Stock Interests.

- i. *Treatment Under the FL/Telmex Plan.* Under the FL/Telmex Plan, on the Effective Date of the Plan, Holders of Old Preferred Stock Interests shall not receive or retain any distribution under the Plan and the Old Preferred Stock Interests will be cancelled and/or discharged. Holders of Old Preferred Stock Interests in this Class are deemed to have rejected the FL/Telmex Plan. Therefore, Class 9 is not entitled to vote to accept or reject the FL/Telmex Plan. XO estimates the recovery for these Interests is 0%.
- ii. *Treatment Under the Stand-Alone Plan.* Under the Stand-Alone Plan, Holders of Old Preferred Stock Interests shall not receive or retain any distribution under the Plan and the Old Preferred Stock

Interest will be cancelled and/or discharged; provided, however, that each Holder of an Allowed Old Preferred Stock Interest shall be entitled to receive and retain as a redistribution gift from the Senior Secured Lenders its pro rata share (based on a fraction, the numerator of which is the liquidation preference of the Old Preferred Stock (as established by Section 3.6 of the Plan) that is the basis for the Allowed Old Preferred Stock Interest and the denominator of which is the liquidation preference of shares of the Old Preferred Stock (as established by Section 3.6 of the Plan) that is the basis for all Old Preferred Stock Interests), of the Nontransferable Rights allocable to the Holders of Old Preferred Stock Interests pursuant to Section 3.6 of the Plan. Holders of Old Preferred Stock Interests in this Class are deemed to have rejected the Stand-Alone Plan. Therefore, Class 9 is not entitled to vote to accept or reject the Stand-Alone Plan. XO estimates the recovery for these Interests is 0% before any appreciation in any exercised Rights.

j. Class 10—Old Common Stock Interests in XO

Class 10 consists of Old Common Stock Interests. Subject to the provisions of Section 3.7 of the Plan, Holders of Interests in Class 10 shall be treated as follows:

- i. *Treatment Under the FL/Telmex Plan.* Under the FL/Telmex Plan, on the Effective Date of the Plan, such Old Common Stock Interests will be cancelled and/or discharged and the Holders of Old Common Stock Interests shall not receive or retain any distribution on account of such Old Common Stock Interests under the Plan. Holders of Old Common Stock Interests in this Class are deemed to have rejected the FL/Telmex Plan. Therefore, Class 10 is not entitled to vote to accept or reject the FL/Telmex Plan. XO estimates the recovery for these Interests is 0%.
- ii. *Treatment Under the Stand-Alone Plan.* Under the Stand-Alone Plan, Holders of Old Common Stock Interests shall not receive or retain any distribution under the Plan and the Old Common Stock Interests will be cancelled and/or discharged; provided, however, that each Holder of an Allowed Old Common Stock Interests shall be entitled to receive and retain as a redistribution from the Senior Secured Lenders its pro rata share (based on a fraction, the numerator of which is the number of shares of Old Common Stock (as established by Section 3.6 of the Plan) that are the basis for the Allowed Old Common Stock Interest and the denominator of which is the aggregate number of shares of Old Common Stock (as established by Section 3.6 of the Plan) that are the basis for all Old Common Stock Interests), of the Nontransferable Rights allocable to the Holders of Old Common Stock Interests pursuant to Section

3.6 of the Plan. Holders of Old Common Stock Interests in this Class are deemed to have rejected the Stand-Alone Plan. Therefore, Class 10 is not entitled to vote to accept or reject the Stand-Alone Plan. XO estimates the recovery for these Interests is 0% before any appreciation in any exercised Rights.

k. Class 11—Other Old Equity Interests in XO

Class 11 is impaired under the Plan and consists of Other Old Equity Interests. On the Effective Date of the Plan, such Other Old Equity Interests will be cancelled and/or discharged and the Holders of Other Old Equity Interests shall not receive or retain any distribution on account of such Other Old Equity Interests under the Plan. Holders of Other Old Equity Interests in this Class are deemed to have rejected both Alternatives under the Plan. Therefore, Class 11 is not entitled to vote to accept or reject the FL/Telmex Plan or the Stand-Alone Plan. XO estimates the recovery for these Interests is 0%.

5. Special Provision Regarding Unimpaired Claims

Except as otherwise provided in the Plan, nothing shall affect the Debtor's or Reorganized XO's rights and defenses, both legal and equitable, with respect to any Unimpaired Claims, including, but not limited to, all rights with respect to legal and equitable defenses to setoff or recoupments against holders of Unimpaired Claims.

6. Acceptance or Rejection of the Plan

a. *Classes Entitled to Vote.* Classes 1, 5 and 6 are Impaired and entitled to vote to accept or reject each of the FL/Telmex Plan and Stand-Alone Plan separately. By operation of law, each Unimpaired Class of Claims (i.e., Classes 2, 3 and 4) is deemed to have accepted each of the FL/Telmex Plan and Stand-Alone Plan and, therefore, is not entitled to vote to accept or reject either Alternative under the Plan. By operation of law, Classes 7, 8, 9, 10 and 11 are deemed to have rejected each of the FL/Telmex Plan and Stand-Alone Plan and are not entitled to vote on either Alternative under the Plan.

b. *Acceptance by Impaired Classes.* An Impaired Class of Claims shall have accepted the FL/Telmex Plan or Stand-Alone Plan, as applicable, if (a) the Holders (other than any Holder designated under section 1126(e) of the Bankruptcy Code) of at least two-thirds (2/3) in amount of the Allowed Claims actually voting in such Class have voted to accept such Plan and (b) the Holders (other than any Holder designated under section 1126(e) of the Bankruptcy Code) of more than one-half (1/2) in number of the Allowed Claims actually voting in such Class have voted to accept such Plan. An Impaired Class of Interests shall have accepted the FL/Telmex Plan or Stand-Alone Plan, as applicable if the Holders (other than any holder designated under section 1126(e) of the Bankruptcy Code) of at least two-thirds (2/3) in amount of the Allowed Interests actually voting in such Class have voted to accept such Plan.

c. *Cramdown.* To the extent necessary, the Debtor shall request Confirmation of either Alternative under the Plan, as it may be modified from time to time, under section 1129(b) of the Bankruptcy Code with respect to any Class which rejects, or is deemed to have rejected, such Plan. For more information, see "VII. The Plan – D. Confirmation and

7. Method of Distribution Under the Plan

a. Sources of Cash for Plan Distributions

Except as otherwise provided in the Plan or the Confirmation Order, all Cash necessary for Reorganized XO to make payments under the Plan shall be obtained from existing Cash balances, Cash generated from operations and, (i) under the FL/Telmex Plan, the sale of shares of New Common Stock pursuant to the terms of the Investment Agreement and the Management Stock Purchase Agreement, or (ii) under the Stand-Alone Plan, the proceeds from the Exit Facility, the Rights Offering, New Warrants and New Options upon exercise.

b. Distributions for Claims Allowed as of the Effective Date

Except as otherwise provided herein or as ordered by the Bankruptcy Court, distributions to be made on account of Allowed Claims as of the Effective Date shall be made on the Distribution Date or as soon thereafter as is practicable. Any distribution to be made pursuant to the Plan shall be deemed as having been made on the Effective Date if such distribution is made on the Effective Date or as soon thereafter as is practicable. Any payment or distribution required to be made under the Plan on a day other than a Business Day shall be made on the next succeeding Business Day. Distributions on account of Claims or Interests that first become Allowed Claims or Interests after the Effective Date shall be made pursuant to Articles III, VI and VII of the Plan. Notwithstanding the date on which any distribution of securities is made to a Holder of a Claim that is an Allowed Claim on the Effective Date, as of the date of the distribution, such Holder shall be deemed to have the rights of a Holder of such securities distributed as of the Effective Date.

c. Interest on Claims

Unless otherwise specifically provided for or contemplated in the Plan or Confirmation Order, or required by applicable bankruptcy law, postpetition interest shall not accrue or be paid on any Claims and no Holder of a Claim shall be entitled to interest accruing on or after the Petition Date on any Claim, other than (a) Other Secured Claims to the extent required by the applicable documents giving rise to such claims and (b) if the transactions contemplated in the Investment Agreement are consummated, Senior Secured Lender Claims as provided in the Senior Credit Facility.

d. Distributions by Reorganized XO

Reorganized XO or the Disbursing Agent shall make all distributions required to be distributed under the Plan. However, any distributions on account of Senior Secured Lender Claims shall be made to the Administrative Agent, and distributions on account of Senior Note Claims shall be made to the Senior Note Trustees. Reorganized XO may employ or contract with other entities to assist in or make the distributions required by the Plan.

- i. *Distribution by Senior Note Trustee.* The distributions to be made under the Plan to Holders of Senior Note Claims shall be made to the Senior Note Trustee, which, subject to any right of the Senior Note Trustee to assert its Note Trustee Charging Lien against the distributions, shall transmit the distributions to the Holders of such Senior Note Claims. All payments to Holders of Senior Note Claims shall be made only upon the Holder's compliance with the requirements set forth in Section 6.10(a) of the Plan, or in the event that such instrument is lost, stolen, mutilated or destroyed, upon the Holder's compliance with the requirements set forth in Section 6.11 of the Plan. As soon as practicable after surrender of the Senior Note instrument evidencing the Senior Note Claim, the Senior Note Trustee shall distribute to the Holder thereof such Holder's pro rata share of the distribution, but subject to any right of the Senior Note Trustee to assert its Note Trustee Charging Lien against such distribution.
- e. Delivery of Distributions and Undeliverable or Unclaimed Distributions
  - i. *Delivery of Distributions in General.* Distributions to Holders of Allowed Claims shall be made at the addresses set forth in the Debtor's records or as otherwise available to the Debtor, the Administrative Agent, the Senior Note Trustees, or any other agent or servicer, unless such addresses are superseded by any proofs of claim or transfers of claim that may be filed pursuant to Bankruptcy Rule 3001.
  - ii. *Undeliverable and Unclaimed Distributions.*
    - (1) Holding and Investment of Undeliverable and Unclaimed Distributions. If the distribution to any Holder of an Allowed Claim is returned to the Disbursing Agent as undeliverable or is otherwise unclaimed, no further distributions shall be made to such Holder unless and until the Disbursing Agent is notified in writing of such Holder's then current address.
    - (2) After Distributions Become Deliverable. Reorganized XO, the Administrative Agent, the Stock Agent or the Senior Notes Trustee, as applicable, shall make all distributions that have become deliverable or have been claimed since the Distribution Date as soon as practicable after such distribution has become deliverable.
    - (3) Failure to Claim Undeliverable Distributions. Any Holder of an Allowed Claim that does not assert a claim pursuant to the Plan for an undeliverable or unclaimed distribution



within one (1) year after the Effective Date shall be deemed to have forfeited its claim for such undeliverable or unclaimed distribution and shall be forever barred and enjoined from asserting any such claim for an undeliverable or unclaimed distribution against the Debtor or its Estate, Reorganized XO, or its property. In such cases, any Cash for distribution on account of such claims for undeliverable or unclaimed distributions shall become the property of the Estate free of any restrictions thereon and notwithstanding any federal or state escheat laws to the contrary, subject to liens to which Senior Secured Lenders may be entitled (if any). Any New Common Stock or Post-Termination Securities, as applicable, held for distribution on account of such Claim shall be canceled and of no further force or effect. Nothing contained in the Plan shall require any Disbursing Agent, including, but not limited to, Reorganized XO, to attempt to locate any Holder of an Allowed Claim.

f. Record Date for Distributions

As of the close of business on the Distribution Record Date, the transfer register for the Notes, Old Common Stock, Old Preferred Stock and the Other Old Equity, as maintained by XO, the Note Trustees, any other applicable trustee or their respective agents shall be closed and the transfer of such securities or any interest thereon prohibited. The Disbursing Agent will have no obligation to recognize the transfer of, or the sale of any participation in, any Allowed Claim or Interest that occurs after the close of business on the Distribution Record Date, and will be entitled for all purposes herein to recognize and distribute only to those Holders of Allowed Claims or Interests who are Holders of such Claims or Interests, or participants therein, as of the close of business on the Distribution Record Date. The Disbursing Agent and Reorganized XO shall instead be entitled to recognize and deal for all purposes under the Plan with only those record holders stated on any official register as of the close of business on the Distribution Record Date.

g. Allocation of Plan Distributions Between Principal and Interest

To the extent that any Allowed Claim or Interest entitled to a distribution under the Plan is comprised of indebtedness and accrued but unpaid interest thereon, such distribution shall, for federal income tax purposes, be allocated to the principal amount of the Claim or Interest first and then, to the extent the consideration exceeds the principal amount of the Claim or Interest, to the portion of such Claim or Interest representing accrued but unpaid interest.

h. Means of Cash Payment

Payments of Cash made pursuant to the Plan shall be in U.S. dollars and shall be made, at the option and in the sole discretion of Reorganized XO, by (a) checks drawn on or (b) wire transfer from a domestic bank selected by Reorganized XO. Cash payments to foreign

creditors may be made, at the option of Reorganized XO, in such funds and by such means as are necessary or customary in a particular foreign jurisdiction.

i. Withholding and Reporting Requirements

In connection with the Plan and all distributions thereunder, Reorganized XO shall comply with all withholding and reporting requirements imposed by any federal, state, local or foreign taxing authority, and all distributions hereunder shall be subject to any such withholding and reporting requirements. Reorganized XO shall be authorized to take any and all actions that may be necessary or appropriate to comply with such withholding and reporting requirements. Notwithstanding any other provision of the Plan, (i) each Holder of an Allowed Claim or Interest that is to receive a distribution of Cash, New Common Stock, and/or Post-Termination Securities, as applicable, shall have sole and exclusive responsibility for the satisfaction and payment of any tax obligations imposed by any governmental unit, including income, withholding and other tax obligations, on account of such distribution, and (ii) no distribution shall be made to or on behalf of such Holder pursuant to the Plan unless and until such Holder has made arrangements satisfactory to Reorganized XO for the payment and satisfaction of such tax obligations or has, to Reorganized XO's satisfaction, established an exemption therefrom. Any New Common Stock or Post-Termination Securities, as applicable, to be distributed pursuant to the Plan shall, pending the implementation of such arrangements, be treated as undeliverable pursuant to Section 6.4 of the Plan.

j. Setoffs

Reorganized XO may, pursuant to section 553 of the Bankruptcy Code or applicable nonbankruptcy law, but shall not be required to, set off against any Claim or Interest (other than a Director and Officer Claim) and the payments or other distributions to be made pursuant to the Plan in respect of such Claim or Interest, claims of any nature whatsoever that the Debtor or Reorganized XO may have against the Holder of such Claim or Interest; provided, however, that neither the failure to do so nor the allowance of any Claim or Interest hereunder shall constitute a waiver or release by Reorganized XO of any such claim that the Debtor or Reorganized XO may have against such Holder.

k. Surrender of Instruments or Securities

As a condition precedent to receiving any distribution pursuant to the Plan on account of an Allowed Claim or Interest, the Holder of such Claim or Interest shall tender the applicable instruments, securities or other documentation evidencing such Claim or Interest to Reorganized XO, its Note Trustee or their agents, or the Administrative Agent, as applicable, unless waived in writing by Reorganized XO. Any New Common Stock or Post-Termination Securities, as applicable, to be distributed pursuant to the Plan on account of any such Claim or Interest shall, pending such surrender, be treated as an undeliverable distribution pursuant to Section 6.4(b) of the Plan. Nothing herein shall require the surrender of any documentation by the Senior Secured Lenders.

- i. *Notes.* Each Holder of a Note Claim shall tender its Notes relating to such Claim to its Note Trustee or their agents, as applicable, in accordance with written instructions to be provided to such Holders by Reorganized XO or its Note Trustee as promptly as practicable following the Effective Date. Such instructions shall specify that delivery of such instruments will be effected, and risk of loss and title thereto will pass, only upon the proper delivery of such instruments with a letter of transmittal in accordance with such instructions. All surrendered Notes shall be marked as cancelled.
- ii. *Old Preferred Stock and Old Common Stock.* Each Holder of an Old Preferred Stock Interest or Old Common Stock Interest shall tender its Old Preferred Stock or Old Common Stock instruments relating to such interest to Reorganized XO or its agents, as applicable, in accordance with written instructions to be provided to such Holders by Reorganized XO as promptly as practicable following the Effective Date. Such instructions shall specify that delivery of such instruments will be effected, and risk of loss and title thereto will pass, only upon the proper delivery of such instruments with a letter of transmittal in accordance with such instructions. All surrendered Old Preferred Stock or Old Common Stock instruments shall be marked as cancelled.
- iii. *Failure to Surrender Instruments.* Any Holder of a Claim or Interest that fails to surrender or is deemed to have failed to surrender the applicable instruments required to be tendered hereunder within one year after the Effective Date shall have its Claim or Interest and its distribution pursuant to the Plan on account of such Claim or Interest discharged and shall be forever barred from asserting any such Claim or Interest against Reorganized XO or its property. In such cases, any New Common Stock or Post-Termination Securities held for distribution on account of such Claim or Interest shall be disposed of pursuant to Section 6.4 of the Plan.

#### **I. Lost, Stolen, Mutilated or Destroyed Securities**

In addition to any requirements under the Indentures or any other applicable agreement, any Holder of a Claim or Interest evidenced by an instrument that has been lost, stolen, mutilated or destroyed shall, in lieu of surrendering such instrument deliver to Reorganized XO or its Note Trustee or their agents, as applicable: (i) evidence reasonably satisfactory to Reorganized XO or its Note Trustee of the loss, theft, mutilation or destruction; and (ii) such security or indemnity as may be required by Reorganized XO or its Note Trustee to hold Reorganized XO and its Note Trustee harmless from any damages, liabilities or costs incurred in treating such individual as a Holder of an Allowed Claim or Interest. Upon compliance with Article VI of the Plan by a Holder of a Claim or Interest evidenced by a Note or